How has Coronavirus Impacted the Property Market?

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2020 was a year like no other, Coronavirus spiralled throughout the globe and impacted every inch of society. Since, the UK has faced stringent tier systems and strict social distancing guidelines, and is continuing to navigate its third national lockdown, with several industries having remained closed for the duration of the pandemic.

With the inevitable impact on the economy, many investment assets have also faced significant challenges over the past 12 months. However, while cryptocurrency was crashing and the stock market dwindling, the property market was booming. The industry had already sustained multiple recessions and the fallout from the Brexit referendum in 2016, but with numerous government schemes ensuring the longevity of the property market, this investment asset has continued to demonstrate its resilience.

That said, the industry has still faced many challenges. Property developer, SevenCapital, reflects on how exactly Coronavirus has impacted the property market:

Post-Lockdown Boom and the Stamp Duty Holiday

As the UK embarked on its first national lockdown, the future of the property market looked bleak, to say the least. The initial market freeze, combined with the temporary closure of construction sites near enough halted the industry and presented many possibilities for the economy. Not only did GDP reduce by 5.8%, but the property market shrunk by 0.20% – the biggest contraction since 2017, when the industry was still recovering from the uncertainty caused by the Brexit referendum.

Unexpectedly, this initial market freeze led to pent-up demand for property, which when the market eventually reopened, prompted a post-lockdown boom. Fuelled by the introduction of the Stamp Duty holiday in July, the property market went on to make history in the second half of the year. The Stamp Duty holiday has not only had enormous benefits for the market, but also for homebuyers and investors; clearly the opportunity to save up to £15,000 on Stamp Duty Land Tax has proven to be a strong incentive for the majority of society.

With property sales totalling over £62 billion more in 2020 than 2019, this demand pushed the average property price to its highest figure in history – £251,000. This momentum continued into 2021, with the initial Stamp Duty holiday deadline of 31st March instilling a sense of urgency amongst buyers, in which we saw mortgage applications rise by 15% in January.

However, as the deadline grew closer and uncertainty surrounding an extension persisted, we caught a glimpse of how the property market could perform without the Stamp Duty holiday. The possibility of missing out on this relief became a reality for many, which was reflected in UK property prices, with these slowing by 1.2% against December’s figures. While continued growth remains positive, this lower rate of expansion could have catalysed a 4.1% fall in the average house price over the coming months – if the Stamp Duty holiday had concluded on 31st March.

The confirmation of a Stamp Duty holiday extension is likely to minimise these impacts, with the additional three months alone expected to allow up to 347,000 further sales to qualify for relief. By addressing endless uncertainties, the Stamp Duty holiday extension offers a positive short-term outlook for the property market, encouraging those who had adopted a ‘wait and see approach’ to seize the opportunity and either move home, or enter the property market.

Changes in Agency & Lettings Processes

In comparison to other industries, such as hospitality and tourism, the property market has been relatively unscathed by the global pandemic. However, Coronavirus has accelerated society into an increasingly digital landscape, and like many, the property industry has had to adapt their processes in order to survive.

While letting agencies have been subjected to working from home requirements for the majority of the pandemic, this digital shift has been at the root of the industry’s success. From virtual viewings, to online property checks, this adaptability has undoubtedly contributed to the growth of the property market.

These digital advancements are arguably advantageous for a lot of property investors, especially those who are overseas. With coronavirus inhibiting international travel, these increased opportunities to purchase property remotely have meant that overseas investors have been able to continue building their property portfolios throughout the pandemic. To be specific, over 6,438 properties across the UK were purchased in the first nine months of 2020 by Hong Kong investors.

This changing landscape has increased the number of channels for investors to interact with letting agents, and similarly, for letting agents to contact tenants. As a result, we’ve seen the beginnings of a much more streamlined property investment process, offering increased access to videos and images of properties, as well as providing more outlets to stay updated with tenancy-related topics.

National lockdowns and strict social distancing guidelines could have easily had detrimental impacts on the property market, with many challenges arising surrounding property viewings and complex paperwork. However, the market’s ability to successfully adapt emphasises its value as an investment asset.

Evolving Tenant Demands

With national lockdowns requiring the majority of society to spend most of their time at home, changes in tenant priorities were inevitable. While the fundamental demands will remain, such as affordability and security, we have seen more immediate trends emerge, such as tenants moving away from micro-living in the capital in favour of more spacious homes in greener environments.

This trend initially emerged within the sales market – the desire to live in the capital decreased, and larger homes with access to outdoor spaces grew in popularity. As well as pushing property prices in the majority of UK regions, we saw 3.4% rental growth across the London commuter belt throughout 2020, driven by the ‘London Exodus’.

Although these evolving tenant demands would have caused uncertainty amongst London investors, this shift is generally beneficial. Property across the London commuter belt averages half the price of London homes, and with nearly 46% of those leaving the capital relocating to commuter towns, investors can consider more affordable properties without compromising their returns.

The fluctuations in tenant demand reiterate the ripple effects Coronavirus has had across the industry – impacting everything from property sales and the rental market, to the tenants themselves. However, overcoming these challenges has not only strengthened the property market as a whole, but continues to reinforce the benefits of this investment avenue.

Is Now the Time to Invest?

With Coronavirus impacting the property market on both a short- and long-term basis, it would be logical to question whether 2021 is the right time to invest in property. Combined with the uncertainty surrounding Brexit, it would be easy to adopt a ‘wait and see’ approach with your investment portfolio.

That said, the UK has now overcome the peak of the pandemic and is preparing for a gradual economic recovery. With the confirmation of the Stamp Duty holiday extension, 2021 offers an opportune time to invest in property: the past performance of the industry provides investors with the reassurance that it is a resilient asset, while the Stamp Duty holiday extension will not only sustain demand, but offer the opportunity to benefit from tax relief.

In their ‘Life After Lockdown’ guide, SevenCapital discusses more of what 2021 holds for the property market, as well as a look into their one-of-a-kind developments.

**Disclaimer: The views expressed within this blog are those of the author and not necessarily those of the Centre for Brexit Studies and Birmingham City University.*